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Executive Registry

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Interagency Group No. 39

TO:	OVP	- Mr. Donald P. Gregg
	NSC	- Mr. Robert Kimmitt
	Agriculture	- Mr. Raymond Lett
	AID	- Mr. Malcolm Butler
	CIA	- [Redacted]
	Defense	- COL R. J. Affourtit
	EXIM Bank	- Mr. William H. Draper, III
	JCS	- LTC Thomas O'Connell
	OMB	- Mr. Alton Keel
	Treasury	- Mr. Christopher Hicks

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SUBJECT: Philippine IG.

A meeting of the Interagency Group on the Philippines has been scheduled for Wednesday, November 21, at 1:00 p.m. The meeting will be held in the EAP Conference Room, room 6205, NS. Please limit your agency's participants to a principal plus one. The latest revised version of the draft Executive Summary of the NSSD paper, which will be the focus of discussion at the meeting, is attached.

  
Charles Hill  
Executive Secretary

Attachment:

NSSD Executive Summary

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NSSD: U.S. POLICY TOWARDS THE PHILIPPINES  
EXECUTIVE SUMMARY

THE PROBLEM

The United States has vital interests in the Philippines:

- Politically, because the U.S. nurtured the independence and democratic institutions of our former colony, the Philippines must be a stable, democratically oriented ally. A radicalized Philippines could destabilize the whole region.
- Strategically, continued unhampered access to our bases at Subic and Clark is of prime importance because of the expanded Soviet and Vietnamese threat in the region. Fall-back positions would be much more expensive and less satisfactory.
- A strong ASEAN that includes a healthy Philippines allied to the U.S. is a buffer to communist presence in Southeast Asia and a model of what economic freedom and democratic progress can accomplish.
- Economically, we benefit from a strong investment and trade position.

Political and economic developments in the Philippines threaten these interests. Long-standing political and economic problems came to a head following the Aquino assassination in

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August 1983, which destroyed most of the political credibility the 19-year old Marcos Government enjoyed and exacerbated a shaky financial situation. A positive political dynamic in the direction of greater openness has developed in the wake of the Aquino assassination, but many question whether President Marcos can or will allow sufficient revitalization of democratic institutions to prevent a full-scale polarization of Philippine society.

Meanwhile, although the Philippines is likely to overcome the current financial crisis with considerable outside help, medium-term economic prospects are quite gloomy and in the absence of major structural economic reform the longer term outlook does not permit much optimism. At the same time, the communist New People's Army, taking advantage of the depressed economy, the weaknesses of the Philippine military and its abuse of civilians, popular fear and resentment of the military, and the government's inability to deliver economic and social development programs, has continued to expand significantly. This threat will doubtless continue to grow in the absence of progress toward credible democratic institutions, military reform including the curbing of abuse, and basic economic reform. Absent political and economic stability, continued steady progress toward an insurgent communist take-over is a distinct possibility in the mid-to long-term, and possibly sooner.

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However, reforms are likely in the short run to weaken some bases of support for the current government, which will resist many of them. While President Marcos at this stage is part of the problem he is also necessarily part of the solution. We need to be able to work with him and to try to influence him through a well-orchestrated policy of incentives and disincentives to set the stage for peaceful and eventual transition to a successor government whenever that takes place.

U.S. GOALS/OBJECTIVES.

Politically, the U.S. wants a strong, stable, democratically oriented, pro-US Philippines. The objective of our policy is to foster an environment conducive to a peaceful transition (i.e., through credible constitutional processes and free elections) to an effective and friendly post-Marcos government with unquestioned legitimacy. Without a healthy economy, the Philippines cannot achieve political stability. Thus, specific U.S. economic objectives remain:

- To strengthen the Philippine economy through our multilateral and bilateral assistance programs;
- To move the Philippine economy toward a free market orientation;
- To maintain and expand current levels of trade and investment (US exports: \$1.8 billion; imports \$2 billion; direct investment \$1.3 billion);

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- To contribute to lifting the Philippine economy from its currently projected negative growth rates in 1984 and 1985.

Our security and defense goals are to maintain U.S. military presence, and to fulfill treaty obligations and commitments made operational through our naval and air bases at Subic and Clark. Through military assistance and training provided the Philippines Armed Forces our objectives are:

- To assist in maintaining internal defense and conventional deterrence capability;
- To continue to support military civic and social action activities;
- To assist in defeating the ongoing insurgency.

Strong people/cultural relationships and broad existing institutional ties over many years assist us in achieving all our goals.

PREMISES UNDERLYING U.S. POLICY

The U.S. does not want to remove Marcos from power or to destabilize the GOP. Rather, we are urging revitalization of democratic institutions, dismantling of "crony" monopoly capitalism, allowing the economy to respond to free market forces, restoring professional, apolitical leadership to the Philippine military, and dealing effectively with the growing communist insurgency. These efforts are meant to stabilize while strengthening institutions which will eventually provide for a peaceful transition.

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Our approach assumes that our interests in the Philippines are worth a high-priority and costly effort to preserve. At the same time, and although we have important influence and leverage vis-a-vis the Philippines, we cannot take the lead in reforming the Philippine system; the Filipinos must do this themselves. Our influence is most effective when it is exercised in support of efforts that have already developed within the Philippines.

We must pursue a comprehensive approach to the triad of challenges affecting our interests because the problems themselves are interlinked. This will require:

- a more open economic system that ends or substantially alters "crony capitalism" and agricultural monopolies;
- a more open political system that offers a credible promise of democratic reform;
- an effective military capable of carrying the fight to the communist insurgency while controlling abuses of its own power.

Our assets include not only the economic and military assistance that we are able to provide but also the respect and sympathy that we continue to enjoy with most segments of the Philippine population. Our support is one of Marcos' largest remaining strengths. Our assets, particularly at the people-to-people level, could be lost if our central goal is perceived as favoring a continuation of the Marcos regime to the exclusion of other democratic alternatives.

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AN ACTIVIST POLICY RESPONSE

US policy since the current crisis came to a head in August 1983 has included enhanced aid and other measures tailored to respond to the crisis in ways that have underlined US resolve to be of assistance. Clear, timely policy statements by our Ambassador in Manila and Administration officials in Washington and active private diplomacy have aimed at demonstrating to the Philippine public that we stand with them in their time of troubles, and that we encourage the basic reforms necessary to the survival of their democratic institutions.

We have adjusted our policy to the evolutionary internal political dynamics at work. That approach has worked. Through public statements and private efforts, we have:

- supported those Filipinos who have been on the cutting edge of moderate reform or change;
- influenced positive decisions and movement on such issues as the new presidential succession formula, a credible investigation of the Aquino assassination, and institution re-building through an acceptable parliamentary election.

Bilateral and multilateral economic steps aimed at helping the Philippine economy weather the current difficulties have included:

- A successful effort to encourage the Filipinos to come to terms with the IMF;

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- maintenance of bilateral assistance programs and expansion of CCC and EXIM credits;
- adjustments within the bilateral ESF program to accommodate the GOP's need for foreign exchange;
- increased PL 480 Title II feeding programs at GOP request and in cooperation with the Philippine Catholic Church; and
- support for World Bank and ADB measures aimed at bringing about structural economic changes, particularly in agriculture.

In the military field, we have encouraged the Philippine government to focus on the insurgency and successfully redirected procurement under our security assistance programs from hi-tech weaponry to basic logistics, communications and mobility items needed to combat the insurgency.

In considering how this policy can be strengthened in the future, we have examined approaches differentiated primarily by the level of resources we would be prepared to devote to encouraging needed reform in the Philippines and by the level of the US profile in the effort. We have also examined negative approaches:

- a "no sale" option to be followed should Marcos fail to agree to our proposals for assistance in return for reform, and
- a "non-feasance" option should Marcos agree to undertake reform measures but fail to comply.

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SPECIFIC SHORT TO MEDIUM TERM GOALS

1984 to 1987, that is, from the 1984 parliamentary election to the 1987 presidential election, may be a major transition period. Changes are already underway: new political forces are mobilizing; the first signs of economic response to austerity measures are being seen; the military, following the Agrava Board revelations, is looking inward. In order for the Philippines to remain politically and economically stable, and for its military to be able to contain the growth of the insurgency, the following high priority changes are required. U.S. policies must aim at progress in all of them.

Political

- Institutional change in preparation for the 1986 local election and the 1987 presidential election:
- reform of the Commission on Elections (COMELEC), the key to the control of election fraud.
- A new election law which at least offers the same guarantees as the election law which applied to the 1984 parliamentary election.
- Legalization of NAMFREL. (National Citizens' Movement for Free Elections).
- Amendment or reform of presidential decree-making powers.
- Changes in the media--particularly television but also radio and print--to permit opposition access.

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Financial, Economic and Developmental

- Adherence to the IMF Program.
- Significant reduction of government interference in agricultural production and marketing; an end to monopoly capitalism.
- Policy reforms in rural credit.
- Continuation of import liberalization.
- A diminished role for public enterprises in financial and industrial activities or improvement in their performance, including accountability.
- Significant tax reform to reduce distortions.

Military

- Restoration of professional, apolitical leadership in the Armed Forces.
- An effective approach to the NPA threat.
- Improvement in dealing with military abuse.
- Improved training.
- Additional military equipment to meet basic military needs, especially in logistics, communications, and mobility.

THE CONSENSUS APPROACH: QUID PRO QUO

The basic consensus quid pro quo approach begins with the tacit understanding with the Philippine leadership that the political and economic liberalization trend currently underway will continue. Continued U.S. assistance outside the base package is linked to this trend.

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The measures we can undertake, and the steps the Marcos Government would have to undertake in return, are as follows:

1. Economic and Financial

Our economic dialogue with the Philippines is critical and one area where we must and should be activists. This does not mean that we should get out in front. Our bilateral dialogue should be closely coordinated with the multilateral banks, who should have the lead. We seek the not-too-gradual liberalization of the economy, not only because liberal reforms should spur more balanced growth, but because they will foster decentralization of economic and political power. To underline our concern, we should consider providing President Marcos, periodic, high level economic briefings. Specific measures:

- Implementation and compliance with the IMF standby arrangement.
- A comprehensive structural reform program, developed by the GOP and agreed to by donors, to resume sustainable growth.
- IBRD and Asian Development Bank loans.
- An upgraded IBRD consultative group, the most readily available method to better coordinate bilateral and multilateral development efforts. A more efficient alternative might be a streamlined consultative group consisting of the US, the MDBs, Japan and one or two other major donors.

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- Active policy dialogue, which should involve steps to be taken that are concrete, specific and achievable. Every tranche of every program-type loan should pull the Philippine economy another step toward the marketplace by requiring specific, concrete steps in return.
- Reducing the duty on sugar on a MFN basis to its legal minimum, which could be worth as much as \$30 million/year to the Philippines.

## 2. Foreign Assistance Measures

The starting guid we would expect is compliance with the IMF; performance sufficient to release the second tranche of the IBRD agricultural inputs loan; and formulation and presentation of a comprehensive agenda for structural reform, along with a plan for implementation.

- Any additional ESF would be provided as program assistance in an effort to bring about policy change in the agricultural sector. With agricultural sector policy changes as well as continued progress in implementing the overall reform program, additional dollars might be provided as free foreign exchange.
- DA would be continued at approximately current levels (\$35-40 million annually), but with greater focus on balanced rural agricultural and agribusiness development.

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- The scheduled phase-out of PL 480 Title II programs should be reviewed in light of new information on hunger and nutrition.
- To enhance leverage, we should seek authority to provide a PL 480 Title I/ III program, contingent upon reform/implementation of the agenda.

### 3. Military Measures

To impress upon President Marcos the seriousness with which we view the insurgency and the deplorable state of his Armed Forces to deal with it, we may need to provide private briefings for Marcos. This would be a sensitive undertaking. Marcos is not uninformed about the NPA threat or the deficiency of the AFP to deal with them. However, he is probably unwilling to admit fully to either NPA threat or the deficiencies of the AFP because to do so would be an indictment of his nearly twenty years of rule. Such a briefing would nonetheless demonstrate the U.S. view and provide Marcos with a framework in which to judge our recommendations and future actions.

Major US efforts to halt any further deterioration in the Philippine military will be hampered by the Philippine military's structural weaknesses: poor, uninspiring leadership; corruption; mismanagement of resources. Given the growth of the insurgency, military assistance is nonetheless essential. A restoration of professional, apolitical military leadership could significantly alter the situation.

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At the outset, substantial new funds beyond those envisaged in the bases-related commitments may not be needed. What is needed is better utilization of already planned funds, i.e., a total of \$425 million in MAP and FMS for FYs 85-89.

An overriding consideration should be to avoid getting ourselves caught between the slow erosion of Marcos' authoritarian control and the still fragile revitalization of democratic institutions, being made hostage to Marcos' political fortunes, being saddled with ultimate responsibility for winning the insurgency, or being tagged with the success or failure of individuals in the moderate leadership. A strong case can thus be made for security assistance which concentrates on practical programs such as logistics, maintenance, training programs, and equipment for mobility and communications. Specific measures:

- Ensure that the provision of military aid (FMS and MAP) at least equals that outlined in the presidential commitment over the five-year period.
- Ensure the most efficient use of military assistance (including measures against corruption and prohibition against direct commercial purchases with FMS credits and MAP funds.)
- Increase IMET and link increase to technical skills training in maintenance, logistics, and communications/electronics.
- Improve communication capabilities;

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- Reorient Philippine participation in joint exercises to concentrate on tasks which will advance civic action capabilities;
- Assist the AFP to fulfill their perimeter security responsibilities at US bases by expanding FMS and MAP to offset their expenses.
- Consider means of assisting the AFP with their cash flow problems by, for example, seeking greater concessionary loan authority and enhanced grant assistance.
- Make a major effort to assist the AFP in improving the existing logistics system through use of MTTs and in upgrading their transportation capabilities.
- Assist in reestablishing training programs throughout the AFP, ranging from basic to advanced programs.

#### 4. Political Measures

##### a. Private Diplomacy

In the Philippine cultural context, the way we convey our policy messages to the government leadership, the opposition, the Church, and the business community is almost as important as the policy.

An effective, low key approach involves no special efforts at communication other than the normal -- an occasional presidential letter, regular visits by administration officials, close Embassy contact, and regular one-on-one meetings between President Marcos and Ambassador Bosworth.

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This has the advantage of moving issues along one at a time in ways that clearly spell out U.S. intentions. Occasional visitors and regular communication at the Ambassadorial level, particularly with President Marcos, would be geared to making sure our messages are received, understood, and placed in the appropriate policy context. This mode is appropriate for expressing U.S. support for initiatives needed to move the Philippines successfully through the transition period such as strengthened/reformed election bodies (NAMFREL and COMELEC), a stronger independent judiciary, and revitalized rural development efforts.

A presidential letter would be key to setting the stage for linking increases in economic, military, and financial assistance to major reform. The same message could be sent by a high level emissary such as Secretary Shultz or the Assistant to the President for National Security Affairs. A third option would be to ask one of several private sector leaders known to Philippine leadership (a "wisemen's mission") to carry the message. This would be particularly advisable if a high level trade/aid/investment initiative effort is made.

b. Public Diplomacy.

Public diplomacy involves both Philippine and U.S. audiences and is an essential part of our policy. As a first step, we would have to spell out our Philippine policy through Congressional testimony, public affairs statements and inserts into foreign policy speeches by senior administration officials.

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Since appearances and the perception of personal ties are a most important factor in the Philippine relationship, U.S. officials will ensure that their relationships with Philippine officials are close or distant based upon a desire for movement toward democratic institutions. U.S. officials will have to maintain a relationship which permits us to continue to exercise influence positively. This is a thin line to walk but it can be done.

CONSENSUS APPROACH: PROS/CONS

The advantages of the consensus approach are:

- Continuation of a policy that has yielded positive results over the past year.
- Enables us to build upon and reinforce positive trends emerging from within the Philippines and avoid over-identification with success or failure that would accompany a more dramatic, high resources/high-profile policy.
- Large-scale commitment of new funds would not be necessary.
- It gives us flexibility we need to deal with the Filipinos and the Congress.

The chief drawback to the consensus approach is, of course, the risk that it might not be sufficient either to prod or

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entice the Filipinos to undertake the necessary reforms. If the quid pro quo policy should fail to bring about needed reform we would be open to criticism that we are not doing or have not done enough to protect our long-term interests in a stable, democratically-oriented Philippines.

Our option in such an event would be to step up the pressure or enhance our assistance as necessary in light of internal developments.

DRAMATIC NEW MEASURES

1. Enhanced Military Assistance-- Increased MAP vice FMS

Rationale for a larger MAP program -- \$100 million in MAP vice a package of \$60 million in FMS and \$25 million in MAP for FY86 -- is as follows:

- Continued reliance on FMS as the major component of military assistance, even at 10/20 payback, is not responsive to economic realities.
- Converting to MAP would introduce a significant new element of U.S. leverage to reform the AFP.
- Such a major improvement would enhance the role of the professionals in the Philippine military.
- Additional military assistance will be needed in FY86 if we are to provide the full amount of military assistance envisaged over the five-year period of the President's "best efforts" commitment.

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Our presentation to President Marcos to link substitution of increased MAP for FMS would indicate that we would expect the following:

- Restoration of professional, apolitical leadership of the Armed Forces.
- An effective approach to the NPA threat.
- Improvement in dealing with military abuse.
- Improved training.
- Additional equipment to meet basic military needs, especially logistics, communications, and mobility.

2. Greatly Increased Economic Assistance (A "Marshall Plan" Approach)

This approach presupposes that progress toward economic reform has taken place as described in the consensus approach. This includes compliance with the IMF program. In addition to further economic reforms, this option is also predicated upon progress in fundamental political reforms.

The objective of a significantly enhanced assistance program would be to help provide the financial wherewithal for a return to a path of economic growth once the austerity measures involved in the IMF program have had the desired effect. The program would have to be carefully crafted to support the objectives of the IMF and other IFIs. It would be designed, in effect, as a reward for successful performance under the IMF program and as stimulus for further structural reform, possibly in the context of a follow-on IMF arrangement or a World Bank SAL.

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Close consultation with key members of Congress would be required. Specifically, they would have to accept the concept of increased assistance and approve an Administration approach to Marcos along the following lines:

- In view of Philippine adherence to the IMF program, and because of difficulties the country is now encountering, the Administration is prepared to approach the Congress to recommend a greatly increased economic assistance package in addition to the bases-related assistance.
- The Congress will not approve this funding unless there is sufficient progress in the economic and political liberalization process and military reform.
- The Administration's success in this effort will thus depend upon specific steps in several areas.

On the political side, President Marcos would have to undertake the following types of measures:

- Institutional change in preparation for the 1986 local election and the 1987 presidential election.
- Reform of the Commission on Elections (COMELEC), the key to the control of election fraud.
- A new election law which at least offers the same guarantees as the election law which applied to the 1984 parliamentary election.
- Legalization of NAMFREL. (National Citizens' Movement for Free Elections).

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- Amendment or reform of presidential decree-making powers.
- Changes in the media--particularly television but also radio and print--to permit opposition access.

We would make clear to Marcos that in addition to adherence to the IMF Program, specific economic measures must include:

- Elimination or substantial reduction of government interference and other restrictions (including monopolies) in agricultural production and marketing.
- Policy reforms in rural credit.
- Continuation of import liberalization.
- accountability for public enterprises in financial and industrial activities.
- Significant tax reform to reduce distortions.

An additional measure could involve U.S. sponsored efforts actively to involve the U.S. private sector, which would include facilitating U.S. investment and encouraging duty free treatment in the Philippines. Such an initiative, of course, would be successful in the context of adhering to the IMF, program.

"No-Sale" Non-Feasance Options

Our strategy options rest on the premise that the Marcos government will begin to undertake, accelerate or adjust to the reforms needed to correct the deteriorating situation. We, thus, need to consider what we would do if Marcos refuses to

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undertake or blocks reform ("no-sale") or, more likely, agrees to the reforms but fails to follow through (non-feasance). All proposals for new assistance should include benchmarks and discreet but plain deadlines for agreement in principle and execution in practice. If there is no agreement, or if agreement is dilatory, we should:

- reiterate our concerns;
- send signals that non-cooperation in Manila leads to non-cooperation in Washington, e.g., delayed disbursement of funds, delayed program approvals, negative votes in multilateral forums;
- discreetly publicize the fact that cooperation is not forthcoming on matters important to the welfare and security of the Philippines. These signals should increase pressure on Marcos from the public, opposition, business leaders, and even from his own close associates. If economic assistance is not forthcoming, the deteriorating situation itself should increase the political and economic pressures on Marcos.

Experience tells us that agreement in principle followed by non-feasance is probably as likely as agreement followed by faithful execution. To guard against this, our tactical approach to assistance must include:

- Clear definition of the elements composing agreement in principle.

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- Clear definition of acceptable performance criteria.
- Periodic in-house evaluation of progress.
- Periodic review of compliance and results with the Philippine Government.

If review established backsliding, we would take the steps outlined above under the "no-sale" option.

Selling a Solution to Congress

Dealing effectively with the Congress on Philippine policy offers a unique opportunity because of the shared perception, which crosses political party lines and includes the media, that reforms are required in the Philippines and that U.S. assistance should in some fashion be linked to reforms. Additionally, there is a domestic constituency for the Philippines, and few Americans favor a military pullout.

Close consultation with the key Congressional committees is imperative. Any thinking about expanded assistance requests should be shared with the key subcommittee chairmen as soon as feasible. Some members of Congress can also be approached to explain our Philippine concerns and policy to the Philippine leadership, the opposition, and other Philippine interest groups.

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